Passive Income 101: 2 Top REITs to Buy on Sale!

Description

The coronavirus pandemic has been hard on real estate investment trusts (REITs). Rent collection rates have been fluctuating, and in the face of a second wave of coronavirus cases (and potential lockdowns), the REIT investors appear panicked, with much of the fear focused on the retail, office, and residential real estate sub-industries.

While distributions could be pressured to their breaking point over the coming months, I think passive-income investors have a lot to gain by scooping up shares of those unloved REITs while they're down and out.

Many of them are trading at discounts in excess of 50% to last year's highs. And while distribution yields may not be safe if we're due for another year worth of coronavirus waves and intermittent shutdowns, I think that long-term income seekers should still look to put money to work, as I believe distributions could be re-hiked abruptly once we move into a post-pandemic world.

Deep value in the REIT space

In a post-COVID world, I suspect the demand for even the hardest-hit properties will see some reversion to their mean. And such a modest reversion, I believe, will be enough to move the needle on shares of battered REITs that have likely overshot to the downside in recent months.

I prefer residential and retail REITs over the office REITs, given the rise of the pandemic-induced work-from-home (WFH) shift that I think will outlast this pandemic because of the incredible new technologies in place that allow for home-based work environments with minimal losses in productivity.

My top REIT picks at this juncture would have to be **SmartCentres REIT** (TSX:SRU.UN) and **Canadian Apartment Properties REIT**, which sport yields of 8.8% and 3.2%, respectively, at the time of writing.

The former play is a contrarian retail real estate bet that's severely discounted, and the latter is an out-of-favour high-growth residential REIT. Both names, I believe, have safe payouts that are likely to survive another wave of coronavirus cases, as well as shares that I think have bottomed out. This piece will focus on the former retail REIT, as I think it's a far more attractive pick for income-oriented investors.

A smart contrarian play for income investors

SmartCentres REIT took a big hit to the chin amid the pandemic, despite demonstrating relatively resilient rent-collection numbers. The REIT houses some high-quality tenants, many of which are deemed as essential businesses that will continue operating in the event of future lockdowns.

Not only is Smart a smart way to collect a relatively safe distribution amid the pandemic, but it's also a great play on a post-COVID world that could bring forth major upside. Moreover, Smart has a long-term plan to diversify its business into mixed-use properties, which could drive greater AFFO (adjusted funds from operations) growth over the next decade and beyond. If you seek a nearly 9% yield but don't want to risk your shirt, I'd say SRU.UN is a buy while it's at $21.

It's a misunderstood REIT that many investors are overly fearful of. Sure, Smart is a mall REIT, but it's a best-in-breed mall REIT that's capable of outshining many less-than-stellar non-retail REITs.

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TICKERS GLOBAL

1. TSX:SRU.UN (SmartCentres Real Estate Investment Trust)

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Date
2025/08/23
Date Created
2020/10/30
Author

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